

Part V

Regionalism and Multilateralism: The Debate Reviewed

The New Regionalism: Security and Development

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I Globalism versus Regionalism

Globalisation is the latest fashion among social scientists and, increasingly, outside the academic sphere. While there is little consensus about what globalisation means, there is a clear need for the concept since the level of transnational integration is qualitatively new.

Globalism, an ideology, can be defined as programmatic globalisation; a vision of a borderless world organised mainly through the market principle. *Globalisation*, a process which may have largely negative or positive connotations depending on one's normative view, was first made possible by the political stability of the American hegemonic world order, which lasted from the end of the Second World War until the late 1960s or early 1970s. Globalisation implies a deepening of the internationalisation process, a strengthening of the functional dimension of development and weakening of the territorial dimension of development. Based on this, one could argue that the process reached a new stage in the post-WWII era even though the origins of globalisation may be traced far back in history. I see globalisation as a qualitatively new phenomenon. Some speak of 'the end of history' implying a systemic convergence among various parts of the world which are also becoming increasingly interdependent. The subjective sense of geographical distance has also changed dramatically, thus prompting others to speak not only of the end of history, but also of 'the end of geography'. Simply put, there is not much left over from the territorially organised Westphalian Old World.

Globalisation basically implies the growth of a functional world market that increasingly penetrates and dominates the 'national' economies which, in the process, are bound to lose much of their 'nationness'. The economy is delinked from culture and politics, both of which are becoming intrinsically mixed in the new 'politics of identity'. While people develop micro-solidarities, the states are becoming promoters of global economic forces rather than protectors of their own populations and cultures against these demanding changes. This implies that the state is becoming alienated from civil society (civil society is defined as inclusive institutions which facilitate societal dialogue across various social and cultural borders). Furthermore,

identities and loyalties are transferred from the civil society to primary groups which compete for territorial control, resources and security. This is a morbid replay of the 19th Century Westphalian logic, and the contradictions involved may result in a collapse of organised society.

For this reason, some observers think or hope that a political counter movement will eventually emerge to modify, halt or reverse the process of globalisation in order to safeguard some degree of territoriality, civic norms, cultural diversity, and human security – principles that we associate with civilised society. One rather radical way of achieving such a reversal of trends, i.e. *de-globalisation*, could be through regionalisation as a neo-mercantilist political project, i.e. the building of (supra-national) regional communities. The regionalist response can take different forms depending on the interests of the dominant actors. If globalisation can be seen as a ‘first movement’ in a second Great Transformation (à la Polanyi), a neo-mercantilist form of regionalisation may form part of a ‘second movement’ together with other forms of resistance to globalisation.

The two processes of globalisation and regionalisation can thus be articulated within the same larger process of global structural transformation, the outcome of which depends on a dialectical rather than linear development; it cannot be readily extrapolated or easily foreseen. Instead, it expresses the relative strength of contending social forces involved in the two processes which deeply affect the stability of the traditional Westphalian state system. Therefore they contribute to both order and disorder and, possibly, a future post-Westphalian world order of some sort. By ‘Westphalian system’, I mean an interstate system of sovereign states and the particular political logic that characterises each individual state. The state is comprised of citizens with obligations and rights defined by citizenship and allegiance to the nation-state, and the outside world is conceived as anarchy, with neither rights nor obligations. Post-Westphalian rationality, on the other hand, would assert that the nation-state has lost its usefulness, and that solutions to problems of security and welfare must be found in different forms of transnational structures, i.e. multilateral or, as this paper argues, regional. By maintaining the territorial focus and the emphasis on the role of ‘the political’, a ‘regionalised’ world can be said to constitute a compromise between Westphalian and post-Westphalian rationalities.

The Westphalian order took shape during the modern phase in European history, roughly starting with the peace of Westphalia (1648). The lengthy state-building process in Europe was a violent one and people gradually learned to view their own state as a protector and the rest of the world as an anarchy and a threat to their security. In the post-colonial era, state-building became a global process and the nation-state became a uni-

versal political phenomenon. The Westphalian rationality takes a particular nation-state as the given guarantee for security as well as for welfare. The identity of the security of the citizens and the security of the state is taken for granted. The turbulence and uncertainties many people experience today come with the unpleasant realisation that this guarantee, historically associated with the status as citizen of a state, can no longer be taken for granted. Increasing numbers of people are international refugees without citizen rights or a floating domestic population without substantive rights and unwelcome everywhere.

The awkward situation sketched above raises the question of how basic security as a human need can be maintained in a world of eroding nation-state structures. Are there structures emerging to compensate for the transforming, if not vanishing, nation-state?

II The New Regionalism

Over the last decade, regionalism has 'been brought back in', albeit in a different form compared to three decades ago. There is a 'new regionalism' or, more correctly, there are 'new regionalisms'. Consequently, there are many definitions of the new regionalism and, as with globalism, there are critics and supporters. The critics view the regionalist trend as a threat to the multilateral system and a violation of the ideal of United Nations (UN) multilateralism. The supporters think that the new regionalism might form the basis for an improved multilateral system, including a better deal for the poor regions. I argue that we are dealing with a 'new' regionalism which is largely a political response to the market-driven process of globalisation and the social eruptions associated with it. I pay particular attention to what happens to the South in the overall process of globalisation and regionalisation.

In my view, the basic problem with globalisation is that it is uneven and selective. Exclusion is inherent in the process, and the benefits for some are evenly balanced by misery, conflict and violence for others. Some observers refer to a zone of conflict in contrast with the stable and well-functioning zone of peace. It is in this way that a new Third World appears to be emerging, characterised by poverty and violence. These negative features are incompatible with civil society and thus, in the longer run, pose a threat to all humanity.

The new regionalism can be looked at in many different ways, but usually the focus is limited to its effects on regional and global trade. Regionalism and multilateralism have thus been compared in terms of their contribution to effectiveness in promoting free trade and maximising

world welfare. On the other hand, our approach in the WIDER project on the New Regionalism suggests that regionalism can achieve many more objectives. We also make a very strong distinction between the current trend of regionalism, since about 1985, and what went before. The new regionalism differs from the 'old' regionalism in a number of ways, and I want to emphasise the following five:

1. Whereas the old regionalism was formed in a bipolar Cold War context, the new regionalism is taking shape in a multipolar world order. New regionalism and multipolarity are, in fact, two sides of the same coin. The decline of US hegemony and the breakdown of the communist sub-system created room-for-manoevre in which the new regionalism could develop. It would never have been compatible with the Cold War system since the quasi-regions of that system tended to reproduce bipolarity within themselves, thereby creating artificial and mutually hostile sub-regions. The First World constituted one pole, the Second World constituted the other, and both struggled for hegemony in the old Third World. This pattern of hegemonic regionalism was discernible in all world regions at the height of the Cold War, but most clearly in Europe and East Asia. Today these types of gaps are closing, perhaps to be replaced by others. There are, however, still remnants of the Cold War order in East Asia.
2. Whereas the old regionalism was created 'from above' (often through superpower intervention with the purpose of alliance building), the new is a more spontaneous process from within the regions where the constituent states experience the 'urge to merge' in order to tackle new global challenges, as well as domestic problems. Regionalism can be understood partly as a reaction to the consequences of globalisation, and both regionalisation and globalisation form part of the current world transformation. Since most states lack the capacity and the means to manage global transformation on the national level, regionalism is one way of coping with the task. This is particularly obvious in the peripheral regions where regionalism has become a major strategy to achieve security and development.
3. Whereas in economic terms the old regionalism was inward-oriented and protectionist (often associated with import-substitution industrialisation), the new is often described as 'open' and thus compatible with an interdependent world economy. The idea of a certain degree of preferential treatment of and solidarity among countries within the region is, nevertheless, implied in the idea of open regionalism. How this some-

what contradictory balance between the principle of multilateralism and the more particularistic regionalist concerns shall be maintained remains somewhat unclear. I would rather stress the ambiguity between 'open' and 'closed' regionalism which is marked in the intermediate regions which aspire to Core status.

4. Whereas the old regionalism was specific with regard to its objectives (some organisations being primarily security motivated, others economically oriented), the new is a more comprehensive, multidimensional process. This process includes not only trade and economic development, but issues such as the environment, social policy, and security; these serve to push countries and communities towards cooperation within new types of regionalist frameworks. Since the economic differences may be large in otherwise culturally coherent regions, a North-South dimension is entering the regionalisation process.
5. Whereas the old regionalism was only concerned with relations between nation-states, the new is part of a global structural transformation process in which also non-state actors (many different types of institutions, organisations and movements) are active and operating at various levels of the global system. As such, the global system is increasingly structured by the new regionalism which actually makes up different regionalisms in the Core, in the Intermediate regions, and in the Peripheral regions.

The new regionalism, I suggest, includes economic, political, social and cultural aspects, and goes far beyond free trade arrangements. Instead, the political ambition of establishing regional coherence and regional identity – apart from security and welfare – seems to be of primary importance. This 'pursuit of regionness' can be compared to 'the pursuit of stateness' in classic mercantilist nation-building.

Five levels or stages of regionness can be distinguished. The first two stages refer to the potential formation of a region. Actual regionalisation happens in stage three, whereas stages four and five represent higher forms of regionalisation formations such as the EU (the only one so far). So when we speak of regions, we actually mean regions in the making.

The regionalisation process can be intentional or non-intentional and may proceed unevenly along the various dimensions of the 'new regionalism', i.e. economic (including development regionalism), political (including security regionalism), social and cultural. In this paper, I focus on intentional regionness along the dimensions of security and development.

The five levels of regionness are:

1. *Region as a geographical unit*, delimited by more or less natural physical barriers and ecological characteristics: Europe from the Atlantic to the Ural, Africa South of Sahara, Central Asia or the Indian subcontinent. This first level can be referred to as a proto-region, or a pre-regional zone since there is no organised international society. In order to regionalise further, this particular territory must, necessarily, be inhabited by human beings maintaining some kind of trans-local relationship. This brings us to the social dimension which is the real starting point for the regionalisation process.
2. *Region as a social system* implies ever widening trans-local relations between human groups. Such relations of embryonic interdependence constitute a security complex in which the constituent units are dependent on each other as well as on the overall stability of the regional system. Thus, the existing social relations may very well be hostile and completely lacking in cooperation. Just like the larger international system of which it is a part, the region can be described as anarchic at this level of regionness. The classic case of such a regional order is 19th century Europe. At this low level of regionness, a balance of power or some kind of 'concert' is the sole security guarantee – which is a rather primitive security mechanism. Similarly, the exchange system tends to be based on symbolic or kinship bonds rather than trust. We could therefore talk of a primitive region exemplified, as far as security is concerned, by the Balkans today and, in spite of a high degree of spontaneous economic integration, by East Asia.
3. *Region as transnational cooperation* can be explicitly organised or emerge more spontaneously and informally. It can include any of the cultural, economic, political or military fields and any combination of these. In the case of more organised cooperation, region is defined by the list of countries which are the formal members of the regional organisation in question. The more organised region could be called the 'formal' region. In order to assess the relevance and future potential of a particular regional organisation, the 'formal' region (defined by organisational membership) should be related to the 'real region' (defined in terms of potentialities, convergencies and through less precise criteria). This is the stage where the crucial regionalisation process occurs. The dynamics of this process can be described as a convergence along several dimensions – economic as well as political and cultural.

4. *Region as civil society* takes shape when an enduring organisational framework (formal or less formal) facilitates and promotes social communication and convergence of values and actions throughout the region. Of course the pre-existence of a shared cultural tradition in a particular region is crucially important at this stage, particularly for more informal forms of regional cooperation, but culture is continuously created and recreated. Nevertheless, the defining element is the multidimensional and voluntary quality of regional cooperation. In terms of society, the region can be defined as an emerging regional anarchic society which is something more than anarchy but less than society. In security terms, the obvious reference is to security community.
5. *Region as acting subject* with a distinct identity, actor capability, legitimacy and structure of decisionmaking. Crucial areas for regional intervention are organised conflict resolution (between and particularly within former 'states') and creation of welfare (in terms of social security and regional balance). This process is similar to state-formation and nation-building, and the ultimate outcome could be a 'region-state' which is comparable to the classical empires in terms of scope and cultural heterogeneity. In terms of political order, this 'region-state' constitutes a voluntary evolution of a group of formerly sovereign national, political units into a supra-national security community where sovereignty is pooled for the good of all. This is essentially the idea of the European Union as outlined in the treaty of Maastricht, though the gap between idea and reality is still quite large. This fifth form of region is still a notion for the future – certainly outside Europe but, as it now appears, inside Europe as well. It is important to note that at this stage of regionalisation, conflict resolution implies the existence of institutions and mechanisms, and not the ad hoc interventions of the type that occur today. These attempts at crisis management serve to underline the need for more institutional forms of conflict resolution at the regional level.

These five levels (or stages) may suggest a certain evolutionary logic. However, the intention is not to suggest a stage theory, but simply to provide a framework for comparative analysis of emerging regions. Since regionalism is a political project devised by human actors, it may – just like a nation-state project – fail. For instance, the Amsterdam summit in June 1997 was a failure for the European project (how big a failure remains to be seen). This failure, in turn, means decreasing regionness and peripheralisation for the region concerned. Thus, changes in regionness imply changes of the structural position in the centre-periphery order. A region in decline means decreasing regionness and, ultimately, a dissolution of the

region itself. The obvious reference here is to the peripheral regions in the New Third World. The struggle against peripheralisation is the struggle for increasing regionness, from the very low level of a potential or primitive region. We shall return to this more activist dimension towards the end of the paper.

The new regionalism is linked to globalisation in different ways, and can therefore not be understood merely from the point of view of the single region in question – whether it be Southeast Asia, South Asia, Southern Africa or the Southern Cone of Latin America. Rather, it should be defined as a world order concept since any particular process of regionalisation in any part of the world has systemic repercussions in other regions, thus shaping the way in which the new world order is being organised.

While the emerging global power structure will be defined by the world regions, they will be very different types of regions. To clarify this pattern, I shall rely upon dependency theory and its familiar division of the world system into Centre (or Core) and Periphery. However, today's dependency analysis takes place at a stage of higher integration and interdependence of the world than two or three decades ago. Consequently, the 'delinking' option is ruled out in any other way than in the form of involuntary marginalisation.

III Regionalism and Global Structure

In spite of the current wave of post-structuralist thinking in International Relations Theory, it still makes sense to conceptualise the world as a structural system, i.e. a system defined by certain regularities and rigidities in relations among its constituent units. What is new about the system today is that as a consequence of transnationalisation processes, various structural positions can increasingly be defined in terms of regions rather than nation-states. This makes it important to understand the nature of the emerging regional formations in the North and in the South.

A distinction can be made between three structurally different types of regions: Core regions, Intermediate regions and Peripheral regions. There are also two basic characteristics which distinguish the regions: their relative degree of economic dynamism and their relative political stability.

- The *Core regions* are economically more advanced and normally growing and they have stable – if not always democratic – regimes which manage to avoid inter-state as well as intra-state conflicts. They organise for the sake of being better able to control and gain access to the world outside their own region. One important means of control is ideological he-

gemony. The predominant economic philosophy in the Core is currently neoliberalism which is also, with varying degrees of conviction, preached throughout the world. As has always been the case, the stronger economies demand access to the less developed in the name of free trade. We can thus speak of neoliberal regionalism although it may sound like a contradiction in terms. This is the 'stepping stone' (rather than 'stumbling block') interpretation of regionalism with respect to its relation to globalisation. There are, however, different emphases among the core regions, and these differences may become more important depending on which type of capitalism is more viable in the longer run. Three forms of capitalism are commonly referred to: the unregulated capitalism of North America, the administered capitalism of East Asia, and the social capitalism of Europe.

- The *Intermediate regions* are, at present, closely linked to a Core region in the sense that they have strong economic relations with a particular Core region and try to pursue similar economic policies. Thus, they will gradually be incorporated into the Core as soon as they fully conform to the criteria of 'coreness', i.e. sustained economic development and political stability. While the 'politics of distribution' characteristic of social capitalism has probably been thrown in the historical dustbin, the praise for free trade is nevertheless somewhat more reserved. The prevalent expression in both Southeast Asia and Latin America is 'open regionalism' which in practice means open economies with some preference for one's own region as well as a rather precautionary attitude towards the Core regions and their assumed adherence to free trade.
- The *Peripheral regions*, in contrast, are politically turbulent and economically stagnant. War, domestic unrest, and underdevelopment constitute a vicious circle which plunges them to the bottom of the system (creating a zone of war and starvation). They have to organise in order to arrest a threatening process of marginalisation and complete collapse. But their regional arrangements are as fragile and ineffective as their state structures and civil institutions. This weakness notwithstanding, they must first tackle acute domestic violence and poverty. Their overall situation makes 'security regionalism' and 'developmental regionalism' more critical than the somewhat irrelevant creation of free trade regimes, or even adherence to the more cautious 'open regionalism'. They have objective reasons to be more introverted and more interventionist than they are allowed under the present hegemonic order and economic ideology. This tendency is what lies behind the protectionist (stumbling block) interpretation of the new regionalism.

Let us now look at these structural positions in more empirical terms by placing the concrete regional formations in the three structures. There are three politically capable Core regions. So far only one of the three Core regions, Europe, aspires to build a formal political organisation. Europe is the paradigm of regionalisation, and it serves both as a model (stimulating other regions to become more integrated) and a threat (provoking other regions to be prepared for a protectionist turn in the world economy). As a model, the EU appears increasingly less impressive as the convergences are ebbing out. Even though it is true that the single market is a fact and the monetary union has been given highest priority, a joint defence identity still seems to be a fairly distant dream. The third pillar (interior affairs) is slowly beginning to be erected. The enlargement towards Central Europe will most likely be delayed, which shows a general lack of deeper concern among the states for overall stability and peace in Europe. The process of regional integration is slowing down and neo-nationalism is rising. The latest experience, the Amsterdam summit in June 1997, was not very encouraging. However, there is no change in the general direction so far and, as has been the case before, further cooperation will occur only when it becomes necessary.

The other two Core regions, North America and East Asia, are both economically strong, but they still lack a regional political order. This is particularly true and dangerous for East Asia where serious tensions between nation-states are just below the surface. In terms of security, the whole region is an enormous vacuum. It is marked by a rather low level of regionness, although this is compensated for by an increasingly dense economic network. East Asian regionalism is often described as *de facto* regionalism whereas regionalisation is presumed to occur *de jure* in Europe and, to a lesser extent, North America. This contrast may be due to differences in political culture, but an alternative explanation might be that East Asian inter-state relations are rather tense and unsettled (albeit not openly hostile). Thus, a growing maturity of the regional security complex may lead to a more formal regionalism, just as the normalisation of relations among the countries in Southeast Asia has been accompanied by a more formal and predictable (*de jure*) regional arrangement than seems to be possible in East Asia. Having said this, it is obvious that on levels other than the inter-state level, there has been an impressive process of regionalisation. The future of the region is either very bleak – in case the potential conflicts are translated into open conflict and war – or very bright – if the degree of economic interdependence proves to be a point of convergence of interests where every state acquires an ever stronger stake in stable peace.

As far as NAFTA is concerned, the US has a more dynamic economy than Europe. It represents a model of neoliberal capitalism that Europeans

refer to as the 'American model'. On the other hand, the region is threatened by social upheaval as the neoliberal doctrine is translated into growing geographic, social and ethnic cleavages. There has been guerilla fighting in two Mexican states, Chiapas and Guerrero. In the US, there are internal low-intensive social wars going on in the big cities. And in Canada, national identity is being reformulated and transferred from the federal to the provincial level suggesting that the very integrity of the Canadian nation is endangered. Thus, even in the Core itself there are problems on the social and political front in spite of the fact that the economies (as if they would be separated from society) are said to be in excellent shape.

Structurally close to the Core are the Intermediate regions which are preparing for incorporation into the Core. The speed of incorporation depends on their continuous good 'core-like' behaviour. This implies maintaining economic growth in a context of openness and deregulation as well as eliminating and, if necessary, repressing domestic conflicts. Until recently, ASEAN provided a good example of successful handling of these imperatives but as events show, no situation is stable. Consequently, there may be dramatic changes in terms of structural position, so what is suggested here is only a tentative map of the new regionalised world.

There are seven Intermediate regions:

- Central Europe, obediently waiting in the first line for membership into the European Union. In this line are the Czech Republic, Poland and Hungary. There is a big question mark for Slovakia. This group has been joined by Slovenia, having escaped from the Balkan imbroglio, which is behaving exceedingly well as an exemplary Central European candidate to EU membership. Croatia intends to follow a similar route, but it is held back due to its miserable human rights record. It will most probably remain in the Balkans in the foreseeable future. The Baltic countries also belong here as they escape the post-Soviet area and make a decisive turn to the West. Estonia has shown the way.
- Latin America and the Caribbean, now in the process of becoming 'North Americanised', but with an important southern bloc, Mercosur, which puts up some resistance to the neoliberal logic, and will presumably become more defensive about Latin culture. The future relationship between NAFTA and Mercosur is crucial but difficult to foresee.
- Southeast Asia, primarily the original ASEAN countries, repeating the development pattern of East Asia to which it is increasingly linked economically as well as in security terms.
- The European Pacific (Australia, New Zealand) and possibly South

Pacific (organised in the South Pacific Forum), all now being drawn by Japanese capital into the larger East Asia economic space. The South Pacific has seen some turbulence lately and may also sink into the Periphery.

- Coastal China, following in the footsteps of Southeast Asia and, together with Hong Kong and Taiwan, becoming part of a Greater China sub-region.
- Southern Africa, or part thereof, has the potential of becoming an Intermediate region after an impressive record of conflict resolution. However, this is under the condition that South Africa plays the role of benevolent regional hegemon and becomes the engine of economic development as well as the guardian of regional peace. This remains to be seen, but a start has been made at least.
- North Africa, also a potential candidate, but unfortunately about to sink into the periphery due to the domestic unrest in Algeria (with spill-over risks). It is necessary to put an end to this destructive process in order to avoid sinking further into the periphery. The question is how this should be done without further violence and polarisation.

Remaining in the Periphery are the following seven regions or sub-regions:

- The post-Soviet area, where the major parts of it (with the exception of the Baltic region) are now in the process of being reintegrated in the form of a Commonwealth of Independent States (CIS), perhaps laying the foundation for a future core region. This large area is not homogeneous. Central Asia is more peripheral than the western part of the former Soviet Union, and there is little likelihood that it will stick together unless a new empire of the old type is formed. Major changes can be expected as far as new alignments are concerned.
- The Balkans, where the countries have lost whatever little tradition of cooperation they once might have had. This is a region which can only be defined as an explosive regional security complex. The current degree of regionness in the Balkans is low indeed. One can speak of a geographical region and a regional security complex (with high security interdependence), but there is no formal regionalism, there are only a few spontaneous regional activities. The Balkans is certainly not a regional civil society and it is far from being an actor in its own right and with its own agenda.
- The Middle East, a region originally defined from outside and with a most unsettled and very explosive regional structure. The states are heterogeneous and incoherent, and they compete for regional hegemony. The level of regionness is low, and to the extent that a stronger regional

- identity will emerge, it will be confined to various sub-regions.
- South Asia, in spite of SAARC, has shown a very low level of 'regionness' because of domestic violence and the 'cold war' between the two major powers, India and Pakistan. To the extent that this hostility can be overcome (and such attempts are now being made), the region may quickly reach intermediate status, but probably at the cost of new internal divisions.
 - The former Indochina sub-region of Southeast Asia together with Burma, all on their way to ASEAN membership in spite of their economic and political problems. Like the southern enlargement of EU, this may stabilise the whole region. Even these additional states, foremost among them Vietnam, could eventually reach intermediate status. Cambodia remains a big question mark.
 - Inland China has not been part of the modernisation process, and it is lagging far behind the rest of China. This may endanger the coherence of the Chinese state/empire and destabilise the intermediate Chinese region as well.
 - The rest of Sub-Saharan Africa, particularly Central Africa and the Horn of Africa, where the political structures called 'states' are falling apart in many countries. As noted above, South Africa along with a substantial part of the Southern African region may emerge as an Intermediate region. Similar potential exists in West Africa where Nigeria, for various reasons, keeps the regional peace but is itself politically divided and internationally isolated.

Thus, the Peripheral regions are 'peripheral' because they are economically stagnant, politically turbulent and war-prone. This is not an explanation of their status, it is merely a structural analysis of their relative positions in the world system. Underdevelopment generates conflict, and conflict prevents necessary steps for improving the economy. To the extent that the structural criteria are transformed by purposive state action, the region 'moves' from one structural position to another. The exact borders of this 'new' Third World are impossible to draw, and the dividing line sometimes goes through large countries (China, India, Brazil). It seems likely that attempts to reach intermediate status by linking up to the world market will lead to deeper internal divisions with destabilising consequences. There are also cases where individual countries are lingering between two structural positions (Slovakia, Ukraine, Peru, Vietnam).

The only way for these poor and violent regions to become less peripheral in structural terms is to become more regionalised, i.e. to increase their levels of 'regionness'. Their only other power resource would rest in their capacity to create problems for the core regions ('chaos power'),

thereby inviting or provoking some sort of external engagement. This mechanism can be seen in Southern Europe's concern for North Africa, Central Europe's concern for Eastern and Southeastern Europe and Russia and Scandinavia's concern for the Baltics. It can also be seen in the growing emphasis that the Chinese (PRC) authorities place on spreading some of the economic dynamics from east and south to west and north. They hope to avoid the invasion of the prosperous areas by desperate paupers, the so-called floating population of perhaps one hundred million fleeing the nameless misery of interior China. Nothing can more drastically illustrate the delinking of 'peripherality' from territory in the new world order.

IV The Dynamics of Regionalisation

The degree of 'regionness' of particular areas can increase or decrease depending on regional dynamics in which global as well as national/local forces have an impact. Regionalisation affects and is affected by many levels of the world system: the system as a whole, the level of inter-regional relations, and the internal structure of the single region, including inter-state relations. It is not possible to state which of these levels comes first or which is more important since changes which take place on the various levels of the world system interact. Together these interactions define the dynamics of regionalisation.

There are also different dimensions of the process which relate to each other. Regional integration was traditionally seen as a harmonisation of trade policies leading to deeper economic integration with political integration as a possible future result. The new concept of 'new regionalism' refers to a transformation of a particular region from relative heterogeneity to increased homogeneity with regard to a number of dimensions, the most important being culture, security, economic policies and political regimes. The convergence along these four dimensions may be a natural process, it may be politically steered or, most likely, it will be a mixture of the two. A certain level of 'sameness' is a necessary but not sufficient condition for this new form of regional integration.

- Culture takes a long time to change. Important in this sense is the inherently shared culture which is usually transnational since national borders are artificial divisions of a larger cultural area in many cases.
- A transformation of the security regime (from security complex toward security community) is perhaps the most crucial factor.
- Changes in political regimes today typically mean democratisation.
- Changes in economic policies nowadays normally occur in the direction

of economic openness.

The interaction between these dimensions make up the dynamics of regionalisation. Furthermore, these dynamics can be found at different levels of world society:

- On the global level, the changing structure of the world system towards fragmentation provides room-for-manoeuvre for the various regional actors. At the same time, the process of regionalisation in the form of higher regionness of various regional formations constitutes a structural change towards multipolarity.
- On the level of inter-regional relations, the behaviour of one region affects the behaviour of others. For instance, European regionalism is the trigger of global regionalisation in at least two ways: one positive (in promoting regionalism by providing a model) and one negative (in provoking regionalism by constituting a protectionist threat).
- The regions themselves constitute arenas for sometimes competing, sometimes converging 'national interests' with the nation-states as dominant actors. If the overall trend within a particular geographical area is convergence of interests, we can speak of an emerging regional actor.
- The actual process of regionalisation is triggered by events on the sub-national level as well. One example is the 'black hole' syndrome, i.e. the disintegration of nation-states due to ethno-national mobilisation. A less violent form of national disintegration is the emergence of economic micro-regions as the geopolitical environment creates a more direct access to the macroeconomy for dynamic sub-national regions.

Although the region is slowly becoming an actor in its own terms, the nation-states typically still conceive it as an arena where national interests could be promoted; these interests are, of course, conceived differently by different social groups in society. Whereas certain groups may find it rewarding to move into the supra-national space, others cling to the national space where they have their vested interests to protect. Regionalisation thus creates its own counter forces.

V The Crucial Role of State Behaviour

Regionalisation does not occur unless the states in a particular region desire it. It may come about through a spontaneous or unintended convergence in terms of political regime, economic policy or security, but often one can identify a triggering political event which sets the process in motion. Naturally, this political event is related to the main players in the region, the policymakers, as distinguished from policytakers, i.e. the small-

er players. In order to understand the regionalisation in various areas of the world, it is useful to observe the behaviour of the policymakers, i.e. the dominant states.

We can divide the policymakers into two categories, those whose influence goes beyond a particular region (the world powers) and those whose influence is confined to a particular region (the regional powers). World powers may not be able to achieve hegemony on the world level and since the range of their influence is undefined and varying, this means that there will be a certain amount of competition among them. The regional powers may be hegemonic in their own regions (which implies a general acceptance or at least tolerance of their leadership throughout the region), or simply dominant (which means that they are looked upon with suspicion and fear among the minor players).

The policytakers can be further subdivided into:

- the supporters who are supportive of the regionalisation process (sometimes the smaller players are the main proponents);
- the multi-trackers who try to find their own path or, rather, several paths since they would be welcome into more than one regional organisation;
- the isolated who are left in the cold since they are seen as liabilities rather than assets (for instance Peru, Burma, North Korea). However, they cannot be made to disappear. They still have the power of provoking regional security crises through domestic turbulence, by being black holes in need of external intervention.

In some cases regionalism grows from extended bilateral relations, for instance in the Americas, where both NAFTA and Mercosur resulted from a situation where third parties (Canada and Uruguay) became anxious not to be left out in the cold. The regional powers (in these cases US and Brazil) usually prefer bilateralism to regionalism. This is also the case in South Asia where the small players softly imposed regionalism on the regional power India, which was always more in favour of bilateralism. China seems to be repeating the same role in East Asia.

Thus, the change from bilateralism to regionalism is one crucial indicator of increasing regionness, but as defined here, increasing regionness can also result from overlapping bilateral agreements within a region since such agreements imply policy convergences in various fields. It is therefore important to take the geographical area as the point of departure instead of the formal regional agreements. Regions are typically 'regions in the making' rather than distinct regional formations.

VI Security and Development Regionalism

So far I have dealt with the structural pattern of a regionalised world order. The definition of this pattern in terms of established and repeated behaviour among states and other actors is made intentionally to avoid the image of a structural trap, which characterised much of earlier dependency theory. A behavioural change thus implies also structural change. The structural problems are to a large extent internal to the region and can be dealt with by changed policies in the various states, but it must be a change in the same direction among a group of neighbouring countries, i.e. what has been referred to as regionness. Let me therefore turn to the problem of purposive change of structural positions, through the help of regional cooperation and integration. The issue I want to discuss concerns the strategic value for various actors of a conscious regionalisation policy in terms of security and development. I will confine my brief analysis to states in the peripheral areas, or what may be said to constitute the 'new' Third World. Violence and underdevelopment are the two problems which define these peripheral areas.

Security Regionalism

Security regionalism can be defined as attempts by the states in a particular geographical area – a region in the making – to transform a security complex with conflict-generating interstate relations towards a security community with cooperative relations. Increasing regionness in a regional security complex is manifested in an increasing role for regional interventions rather than either extra-regional (multilateral or plurilateral) or intra-regional (unilateral or bilateral). Of course, if we are dealing with a security community, the issue of external intervention in a failed state does not arise. This is the highest level of regionness along the security dimension.

What are the security problems to which regionalisation may provide a solution? They can be summarised in the metaphor of 'black holes', or what in UN terminology is referred to as 'failed states'. These constitute a problem for neighbouring states who rely on a stable regional environment for their international credibility, and who are prone to intervene if something goes wrong in one particular state. Nigeria thus takes an interest in stabilising the West African region in spite of being rather shaky itself. And, if need be, Brazil will explain to the military in Paraguay that coups will not be accepted in the new era of Mercosur cooperation. National disintegration seems to reinforce the process of regionalisation via threats to regional security provoking some kind of reaction on the regional level. National disintegration may even be said to form part of the process of regionalisa-

tion since the enlargement of political space provides opportunities for different sub-national and micro-regional forces, previously locked into state structures, to reassert themselves in peaceful (as in the case of micro-regionalism) or violent (as in the case of ethno-nationalism) ways.

In relation to the earlier discussion of the undermining effect of globalisation on the Westphalian state system and the internal legitimacy of weak state formations, the collapse of political authority at one level of society (the nation-state) tends to open up a previously latent power struggle at lower (sub-national) levels. In such a complex multiethnic polity, the process of disintegration may continue almost indefinitely. But only 'almost'. The world does not like a vacuum. Sooner or later there must be some reorganisation of social power and political authority on a higher (transnational) level of societal organisation – most probably the region. Why? Because most wars today are civil wars, and a region facing a Hobbesian situation in one of its states must provide some substitute for the vanishing state authority. The threat as such makes the region an actor whether it likes it or not.

This more permanent regional arrangement is, however, likely to be preceded by some form of external intervention with the purpose of reversing the disintegration process which threatens to become a regional security crisis. Again the region may play a role as an actor, but there are also other, and so far more important, actors. In making an inventory of possible actors, we can distinguish between five different modes of external intervention in regional security crises: unilateral, bilateral, plurilateral, regional and multilateral.

- Unilateral intervention can either be carried out by a concerned neighbour, for instance trying to avoid a wave of refugees, or by a regional power or superpower which has strategic interests in the region. The numerous US interventions in Central America are the most obvious case in point. Regarding neighbourly interventions such as Tanzania's in Uganda and Vietnam's in Cambodia, it is interesting to remember that they were highly controversial in spite of the fact that there might have been good reasons behind them.
- In the bilateral case there is some kind of (more or less voluntary) agreement between the intervener and the country in which the intervention is made. One such rather unusual case was India's intervention in Sri Lanka's civil war.
- The plurilateral variety can be an ad hoc group of countries or some more permanent form of non-territorial alliance such as NATO or the Islamic Conference. The intervention in Bosnia was multilateral (UN) as well as regional (EU), but the more effective interventions were plurilateral.

- Regional intervention is carried out by a regional organisation which has a territorial orientation. One such rather unexpected intervention was the ECOMOG force in Liberia, organised within the framework of ECOWAS.
- Multilateral intervention normally means a UN-led or at least UN-sanctioned operation. The most spectacular operation of this type so far was the one in Cambodia. The operation allowed Japan, which has a far-reaching security interest, the opportunity to participate in a large international action. For Cambodia, several questions remain, above all how and on what conditions the Khmer Rouge may rejoin the national community. Only when this problem has been resolved, will it be possible to talk about real conflict resolution. So far this is rather a case of multilateral conflict management with a strong regional component as a result of Japanese involvement and the strong ASEAN interest in regional peace.

These distinctions are not very clear-cut, and in real world situations several actors at different levels may be involved; the number usually increases with the complexity of the conflict itself. However, I believe that future external interventions will prove to be a combination of regional and multilateral operations, but with an increasingly important role for the former. Unilateral action lacks legitimacy and raises suspicion in the international community. Bilateral action such as the Indian intervention in Sri Lanka could, were it not for India's persistent bilateralism, have been organised as a regional, i.e. a SAARC operation. This would presumably have made it more legitimate. In cases where there are sleeping regional organisations, such as the case of ECOWAS in West Africa, they may be revived and even find a new task for themselves as a result of a regional crisis. Even when there are no regional organisations at all, regional initiatives (however feeble) are nevertheless taken. The legitimacy of such actions rests merely in the fact that no organised actor with sufficient legitimacy is prepared to get involved. This may, however, be a security imperative for neighbouring states since inactivity may spell their own undoing. This also suggests a stronger regional interest in a durable solution. For a multilateral or plurilateral force, the intervention is a task with a definite end (the soldiers move out), but for regional actors the problem remains unless it is solved in a more comprehensive way. A regional solution must be embedded into the larger regional power structure. A ceasefire is not enough. A stable solution demands the building of a regional security community.

The record of regional intervention in domestic conflicts and regional conflict resolution is a recent one, and therefore the empirical basis for

making an assessment is weak. However, in almost all world regions, there have been attempts at conflict resolution with a more or less significant element of regional intervention, often in combination with multilateralism (UN involvement). Perhaps the preferred future world order can be characterised as regional multilateralism? In contrast with the worst 'clash of civilisations' scenario, this would be a world with largely introverted regions in symmetric balance and involved in a multicultural dialogue and a constructive political relationship.

Development Regionalism

By development regionalism, I refer to measures from a group of countries within a geographical region to increase the efficiency of the total regional economy and to improve the collective position in the world economy. The new regionalism may also provide solutions to development problems. This can in fact also be seen as a form of conflict prevention since, as was noted above, many of the internal conflicts are rooted in development problems of different kinds. Under the old regionalism, free trade arrangements reproduced centre-periphery tensions within the regions which made regional organisations either disintegrate or fall into slumber.

Let me propose seven arguments in favour of a more comprehensive development regionalism:

- *The sufficient size argument.* Although the question of size of national territory might be of lesser importance in a highly interdependent world, regional cooperation is nevertheless imperative particularly in the case of micro-states who either have to cooperate to solve common problems or become clients of the 'core'.
- *The viable economy argument.* 'Self-reliance' was rarely viable on the national level and has now lost its meaning, but a strategy of 'development from within' may yet be a feasible development strategy at the regional level, for instance in the form of coordination of production, improvement of infrastructure, and making use of various economic complementarities and dynamic factors.
- *The credibility argument.* Economic policies may remain more stable and consistent if underpinned and 'locked in' by regional arrangements which cannot be broken by a participant country without provoking sanctions from the others. This argument can be extended to cover political credibility as well.

- *The effective articulation argument.* Collective bargaining on the regional level could improve the economic position of marginalised countries in the world system, or protect the structural position and market access of emerging export countries.
- *The social stability argument.* Regionalism can reinforce societal viability by including social security issues and an element of social or regional redistribution (by regional funds or specialised banks) in the regionalist project.
- *The resource management argument.* Ecological and political borders rarely coincide, so most serious environmental problems cannot be solved within the framework of the nation-state. Some problems are bilateral, some are global and quite a few are regional. The latter are often related to water: coastal waters, rivers and ground water. Like a regional security complex, we can speak of a regional ecology complex. The fact that regional resource management programmes exist and persist, in spite of nationalist rivalries, shows the imperative need for environmental cooperation or “environmental regionalism”.
- *The peace dividend argument.* Regional conflict resolution, if successful and durable, eliminates distorted investment patterns since the ‘security fund’ (military expenditures) can be tapped for more productive use.

VII Conclusion

In sum, development regionalism contains the traditional arguments for regional cooperation such as territorial size, population size and economies of scale, but more significantly, it also addresses new concerns and uncertainties in the current transformation of the world order and world economy. There is a vicious circle where conflict and underdevelopment feed on each other. But the circle can also become positive. Regional cooperation for development would reduce the level of conflict, and the peace dividend facilitates further development cooperation. Regional peace thus becomes a comparative advantage in an integrating but turbulent world economy. Consequently, regional conflict means disaster for millions of non-combatant populations as the catastrophes in Central Africa and the Horn of Africa show.

The ASEAN component of the Southeast Asian region is a good demonstration of the economic value of regional stability. Another ex-Third World region that is experiencing relative peace today is Latin America

which may be said to have gained a comparative advantage in peace and political stability. In Central America, formal regional institutions did nothing to facilitate a process of regional integration in the era of old regionalism, but in the last few years, conflict resolution, in combination with more compatible and internationally acceptable economic policies, has moved the small and fragile states closer together and created a new dynamism in the region. South Asia has a good chance of improving its structural position if India and Pakistan can come to terms with each other. Similarly Southern Africa can, through the new political order established in South Africa, begin to strive towards intermediate status.

Security and development form one integrated complex. They constitute two fundamental imperatives for regional cooperation and increasing regionness. Thus, political will and political action will play their part in breaking the vicious circle of uneven globalisation, regional conflict, underdevelopment and human insecurity. This is particularly the case in the peripheral regions of the 'New Third World'.

The Policy Challenges of Regionalisation and Globalisation

Charles P. Oman

I Introduction

My comments will draw mainly from research that we completed at the OECD a couple of years ago on globalisation and regionalisation and their policy implications for developing countries. Let me lay out some of the bases and findings of that research before focusing more explicitly on the debate over multilateralism and regionalism.

First, some working definitions are important to set the frame of the debate. These are rather broad and uncontroversial definitions. I find it most useful to define *globalisation* as the growth, or more precisely the accelerated growth, of economic activity that spans politically determined national and regional boundaries. I would define *regionalisation* as the movement of two or more societies towards greater integration with one another. Regionalisation can of course be driven by the same economic forces that drive globalisation (indeed, that seems to be largely what has been happening in recent years in East Asia, and happened in North America before NAFTA), or it can be driven by political forces which may in turn be motivated by security concerns and/or by economic objectives. Note, however, that even when the objectives of politically-driven regionalisation are primarily economic, they may *not* primarily be *trade* concerns – i.e., despite their name, free trade agreements do not always have as much to do with trade as one may think. In NAFTA, for example, the major motivations on both the US and Mexican sides had less to do with bilateral trade liberalisation or increasing market access *per se* than with locking-in policy reforms in Mexico and, for Mexico, with attracting FDI. Trade policy reform and trade liberalisation, and regional trade or integration agreements in particular, are often important political and policy vehicles used to achieve other ends, both in the realm of security concerns, as in Europe, and broader economic objectives, as for Mexico in NAFTA. As Mancur Olson has pointed out, regionalisation can also constitute a powerful policy tool to weaken the often highly destructive and rigidifying political and economic powers of entrenched oligopolistic special-interest groups, for example.

Regionalisation can also take many juridical forms, including those of a free trade agreement, customs union, common market, single market, monetary union, and even fully fledged economic, monetary and political unification. And of course, the movement can be voluntary or involuntary. The movement that Arvind Panagariya presented earlier, for example, of the English colonisers integrating India, was probably involuntary as far as those 25 regions were concerned, but it is a classic example of movement toward greater regional integration; the processes that led to the creation of nation states in France and England, and more recently in Italy and Germany, are further examples of what I would call processes of regional integration, or regionalisation.

II Three Waves of Globalisation

But let me focus first on *globalisation*. One inference I would draw from my definition of globalisation, is that globalisation is not a new phenomenon. The last 100 hundred years alone have been witness to three distinct periods, or waves, of strong globalisation. The first wave was during the 50 years or so that preceded World War I. Then, as now, world output was growing strongly and trade growth was even stronger than output growth. That rapid growth of trade was facilitated by at least two phenomena. One was significant technological progress in international communications and transportation, and in the way production itself was organised. Another was a significant lowering of policy barriers to trade and investment in some regions. During that period, as now, international and intercontinental *investment* also grew explosively, even faster than trade growth. And then as now, a lot of that explosive growth in international investment was in the form of financial flows. Also, then as now, inequalities of wealth and income within and between countries grew significantly. Perhaps the most obvious *difference* between the wave of globalisation in that period and today is that back then there were huge flows of international and intercontinental migration, with tens of millions of people emigrating from Europe alone; today, the possibilities for such migration are much more limited.

That wave of globalisation culminated in World War I and largely collapsed during the interwar period with the social and economic disasters of the 1920s and 1930s.

The next wave of globalisation was during the 1950s and 1960s. Then, as now, world output growth and productivity growth strongly benefited from major technological advances (many accumulated during the 1930s and 1940s) and from significant reductions in policy barriers to trade, especially in the advanced countries. Then, as now, international investment

also grew explosively, much faster than trade – with the difference that this time it was not so much financial flows but FDI and the proliferation of multinational corporations, especially US-based manufacturing companies, which were investing in Canada, Europe and Latin America. This second wave of globalisation, like today, was also accompanied by a significant wave of regionalisation (I am thinking especially of the formation of the Common Market in Europe, more than of the largely unsuccessful attempts at regional integration in Latin America and Asia). This new wave of globalisation tapered off in the 1970s as productivity growth rates fell very markedly in all of the leading economies.

What, then, is so special about globalisation today?

I believe one cannot adequately understand globalisation, at least from a policy perspective, simply by looking at patterns of international trade and investment, or by looking at trade and investment policies. To grasp the specificity of globalisation today, relative to earlier periods, one must grasp the nature of change in the microeconomic forces that drive globalisation. I refer to the way in which economic activity is organised, both within firms and between firms who are competing and cooperating with each other.

The gist of my argument is perhaps best explained by using the concept of Taylorism, or what Frederick Taylor himself liked to refer to as ‘scientific management’. It was actually during the period of globalisation that preceded World War I that the organisation of mass production developed, as did the modern joint-stock corporation which separated management from ownership. These developments gave rise in the US, on the eve of World War I, to the rise and spread of the principles of scientific management in the organisation of production in a growing number of sectors.

Taylorist organisations can be described as taking many sizes, shapes and colours, but as having three things in common. One is that in the human activity of production, there is a tendency to separate ‘thinking’ from ‘doing’ – you have people hired to be the thinkers and people hired to execute: managers and specialised engineers on the one hand, workers on the other.

The second feature of Taylorist organisations is a tendency to push specialisation as far as possible, which in turn leads to very narrowly defined job responsibilities in production. (Many of my fellow economists, at the OECD and elsewhere, seem to think that the efficiency gains to be derived from increased specialisation and economies of scale stem from a universal law of nature, and are not dependent on or specific to any particular paradigm of production, i.e., of the way work is organised. I think that view is mistaken. One has to look at the benefits to be derived from economies of scale and increased specialisation as specific to particular paradigms of organisation. This problem is only amplified, moreover, by the fact that so

many economists see technology – certainly including the way the work of human beings is organised within firms – as a black box.)

The third feature of Taylorist organisations is a tendency to believe that, at any given time, there is one best way of doing things – hence the term ‘scientific’. (All three of these features of Taylorist organisations are nicely illustrated in Charlie Chaplin’s movie *Modern Times*.)

Only after World War II did Taylorism spread widely outside the US. It spread to Europe, notably in conjunction with the technical assistance programmes of the Marshall Plan. Carl Dahlman at the World Bank recently produced a study reminding us of the thousands of foremen, middle managers and top managers who went from Europe to the US, and vice versa, under the Marshall Plan to disseminate the principles of ‘scientific management’ in Europe after the War. That dissemination was also promoted by the major flow of foreign direct investment by US multinationals into Europe at the time. Taylorism also spread to much of the so-called modern sector in many developing countries during the 1950s and 1960s – both in those that were pursuing import-substituting industrialisation and in those few that were pursuing export-oriented manufacturing growth strategies. Taylorism was pursued as well in many of the centrally planned economies, where Stalinist approaches to production were a veritable caricature of Taylorism and scientific management.

It was that spread and the ongoing development at the time of Taylorist approaches to the organisation of economic activity which, in my view, drove globalisation during the 1950s and 1960s. Taylorism contributed to the very strong growth of productivity levels in those years, worldwide. And, it is worth noting, Taylorist principles were also very influential in guiding the development of many public organisations, both domestic and international, during the postwar period.

The three features of Taylorism that so well served productivity growth during the 1950s and 1960s also led, however, to an accumulation of serious bureaucratic rigidities in the very fabric of the organisation of economic activity. Those rigidities were, in turn, a major cause of the marked slowing of productivity growth in the 1970s, notably in the leading economies, where ‘scientific management’ was most developed, widespread and entrenched. That slowing of productivity growth was, in turn, a major cause of the emergence of *stagflation*, i.e. slow growth, high unemployment and high inflation. Stagflation plagued both the US and Europe in the latter half of the 1970s and, we might note in passing, devastated Keynesian economic thinking.

III Post-Taylorism

Market deregulation – to stimulate competition – and monetary shock treatment – to cut inflation – were the twin policy responses to stagflation in the OECD countries, starting in the late 1970s. Deregulation was actually launched in the United States under the Carter administration in the late 1970s. It was followed by the Thatcher government, which pursued privatisation along with deregulation, after Mrs. Thatcher's election in 1979. It was pursued by the Reagan administration in the US after 1980. And Anglo-Saxon deregulation put tremendous pressure on continental Europe to follow suit, which – to make an interesting story very short – led to the launching of the Single Market programme by the EC in 1985.

I am arguing, in other words, that the Single Market programme was continental Europe's deregulatory policy response to Anglo-Saxon deregulation as well as to Eurosclerosis (as stagflation was called then in Europe) and to perceptions in Europe that the centre of economic gravity was shifting from the North Atlantic to the Pacific. The Single Market programme was a policy-led deepening of European regional economic integration designed to stimulate competition within Europe in order to strengthen European competitiveness in global markets and stimulate growth at home.

The US, to complement its deregulatory moves at home and its monetary shock treatment to cut inflation, proposed at the GATT Ministerial in 1982 to launch a new round of multilateral trade negotiations. But the US was turned down by the European Commission and the European Community, who did not want to launch a new round of multilateral trade negotiations until they got their regional house in order, i.e. until they were able to launch their process of deregulation at home, in the form of the Single Market programme. Only after the launching of the Single Market programme in 1985 did the EC support, in 1986, the launching of the Uruguay Round.

One result of this delay was that the US then proceeded to change its own position on regionalisation, from having systematically resisted and refused to engage in *de jure* regionalisation at home – though there was substantial *de facto* regionalisation between the US and both Mexico and Canada – to pursuing it actively. The US proceeded to negotiate the Canada-US Free Trade Agreement, signed in 1988, and then to launch bilateral negotiations with Mexico which ultimately led to the signing of NAFTA in 1992.

One can thus argue that the stagnation of productivity growth and the slowing of globalisation that came with it in the 1970s gave rise to a new round of regionalisation, starting in Europe and followed in North

America – with a lot of knock-on effects in terms of the impulse given to regional agreements elsewhere (the ASEAN FTA, Mercosur, etc.).

In the meantime, the policy responses to stagflation – notably the monetary shock treatment by the US Fed to cut inflation – led to deep recession in the early 1980s. At the same time, US companies began to lose significant market shares to Japanese auto and electronics imports in the US market because the late 1970s and the early 1980s also witnessed the coming of age of a number of, what I would call, post-Taylorist flexible organisations in Asia – organisations which proved highly competitive in world markets.

Post-Taylorist organisations, like Taylorist organisations, can be described as taking many sizes, shapes and colours. They include both the large-firm variety, such as Toyota, Mitsubishi or Hewlett Packard for example, and the small-firm variety in the form of certain industrial clusters. Post-Taylorist organisations include firms in modern services as well as in manufacturing – i.e., their relevance, and that of the analysis I am putting forward, is certainly not limited to the manufacturing sector. And they all have three common features, which are exactly the reverse of those characterising Taylorist organisations: (i) They have a tendency to re-integrate thinking and doing in production – if only to better exploit the human intelligence of their workers and their capacity to perceive and find creative solutions to new problems. (ii) They emphasise teamwork and more broadly defined job responsibilities – an emphasis which in turn holds major policy implications in the fields of education, multi-skilling, and many other areas in the realm of human resources development, infrastructure, and others that are simply too numerous to develop here. (iii) They have a tendency to emphasise the importance of continuous innovation in the *way* things are produced, as well as in *what* is produced.

The key point is that the most productive post-Taylorist organisations can attain levels of labour productivity and capital productivity far superior to those that the most productive Taylorist organisations can attain. It is the ongoing spread and development of post-Taylorist approaches to the organisation of activity, especially in the leading economies, that is the driving force of globalisation today.

But Taylorist organisations continue to account for a large share of output and employment in the OECD countries, where the mentality of ‘scientific management’ is still widespread and deeply entrenched in the overall fabric of production and the organisation of economic activity – and in the fabric of policy thinking, and the organisation of public institutions as well. Resistance to moving from traditional Taylorist ways of thinking and organising to post-Taylorist flexible ways of thinking and organising is thus strong. That resistance constitutes the major ‘structural’ cause of the

job-market problems (and ‘globophobia’) that have come to plague the OECD countries – notably high unemployment in Europe and rising inequality and job insecurity among workers in the US – over the last ten to fifteen years.

While this resistance is partly caused by a lack of flexibility in labour markets in Europe, moreover, there is a lot of resistance to change that starts at the level of top management, with people who have often built brilliant careers thanks to their ability to see the world through Taylorist glasses, and who find it hard to perceive problems, much less solutions, through other than Taylorist glasses. There is also a lot of resistance to change by middle management whose jobs would either disappear, or be changed beyond recognition, in a post-Taylorist organisation. There is a lot of resistance to change by skilled labourers whose skills, perhaps accumulated over a lifetime of work experience, are often too narrowly defined for the needs of post-Taylorist organisations. And, of course, unskilled labour is the biggest loser of all because they have little place in post-Taylorist organisations.

IV Globalisation and Regionalisation

What does all of this have to do with the debate about regionalism and multilateralism? Given the time, I would like to highlight one main point: the importance of understanding that the same microeconomic forces which are driving globalisation in the real economy today are also an important force working for regionalisation, including *de jure* forms of regionalisation. This was particularly visible in the years 1990 to 1993, for example, when the Uruguay Round was in difficulty. Although multinational corporations certainly favoured bringing the Uruguay Round to a successful conclusion, what many people found surprising at the time was that they were *not*, on the whole, the strong driving political force for a successful conclusion of the Round that many expected them to be. We asked Lou Wells to do a paper on that subject and he came up with a very interesting finding. He called it the ‘Big Yawn’ thesis. His thesis – and I find it persuasive in view of the evidence (with the data we have today I find it even more convincing) – is that many multinational corporations were – and remain – much more interested in pursuing the lowering of barriers to economic activity *within* each of the three major regions of the global economy, than they have been concerned about any danger of a collapse of the Uruguay Round and the possible rise of inter-regional barriers to trade that could be the consequence of such a collapse. They would have been worried about any increase in inter-regional barriers to *investment*, of

course, but few MNCs saw that as a serious likelihood even in the worst-case scenario of a collapse of the Uruguay Round.

Likewise, to take a more recent example, many US firms feel deeply stunned by the apparent collapse of possibilities for the US Congress to give the President 'fast track' authority for the negotiation of new international trade accords. But most of those firms' deepest concern stems, again, from what that collapse means for *regional* integration in the Western Hemisphere, more than from what it might mean in terms of negotiating post-Uruguay Round issues at the multilateral level (i.e. for WTO negotiations).

Part of the reason for this multi-*regional* focus by many MNCs – and not only US multinationals – is that while a lot of their physical production and sourcing of inputs is becoming more international, that internationalisation of sourcing is occurring mainly *within* regions as opposed to *between* regions. In other words, while it makes a lot of sense to talk about the globalisation of markets, about the globalisation of competition, and about the globalisation of many corporate functions, including management systems and so on, it really is a misnomer to talk about the globalisation of physical production, i.e. of the sourcing of physical inputs *per se*. It is more accurate to talk about the *regionalisation* of production.

Another part of the reason why multinational corporations are in favour of regionalisation is that firms are pushing for what Robert Lawrence and others have called 'deep' policy integration, i.e. going beyond border measures to reduce international discrepancies in policy matters normally considered domestic. While WTO negotiations focus heavily on these measures already, regional agreements are seen by many MNCs as a necessary complement or, more often, a necessary precursor to serious progress on these issues in the WTO.

I should reiterate, by way of conclusion, that the potential value of *de jure* regionalisation is also a potentially powerful means to weaken entrenched, rigidifying oligopolistic interest groups in countries within the region, and in doing so to stimulate the forces of domestic competition and enhance their economies' flexibility. This stimulus to competition may induce economic benefits that are significantly greater than any efficiency gains which can be derived from greater specialisation *per se*. In other words, I am highlighting the dynamic as opposed to the static gains of regionalisation.

Of course, this takes us back to the logic of Europe's Single Market programme, and more generally to the point that in practice, and historically, globalisation and regionalisation tend naturally to be mutually reinforcing – but only insofar as regionalisation stimulates competition within the region. When *de jure* regionalisation becomes a tool for regional protec-

tion, which is a permanent danger, it loses its value as a policy tool for strengthening the region's growth and competitiveness in global markets and becomes counterproductive.

Floor Discussion of “Regionalism and Multilateralism: The Debate Reviewed”

Capital, Labour and Standards of Living

Charles Oman’s historical comparison of waves of integration generated a number of interesting comments and questions from the participants. For instance, Salvatore Zecchini emphasised the importance of technological advances in the development of new approaches to enterprise management and wondered why Oman had not mentioned this explicitly in his presentation. “Is it so self-evident that it does not deserve mention? I think, however, that it certainly requires some reflection because disruptions in this process of technical advancement may result in discontinuity in the ongoing process of globalisation.”

Oman agreed and elaborated on Zecchini’s point. “The apparent implication of new technology is that it strengthens decisionmaking power in the centre of a firm so that many subsidiaries become less autonomous and less capable of taking initiative than in the past. Thus, your observation about technology advances points to an argument regarding the loss of sovereignty of subsidiarities, but this is only one dimension. Equally important is the labour/capital dimension and whether labour is going to become more empowered or less empowered. I tried to take a more or less neutral stance by pointing out that it is not necessarily a better nor a worse world for workers. The issue is not so much one of economic efficiency as it is one of political power. Your point is extremely important because in today’s world, the efficiency with which these new technologies are actually used by companies depends much more on the way human beings in the company are organised than on the amount of money they invest in new technologies.”

András Inotai followed up commenting that capital, trade and most services are global but labour is not. “The issue of globally moving capital and regionally moving labour is a particularly important issue if we want to forecast the future of global capital flows and high-level unemployment, for example in Europe. In terms of accession to the EU, it does not matter what measures the EU takes with regard to the labour market because capital cannot be restricted. The more the market is restricted, the more capital may flow out of Western Europe. How do you look at this issue and are there any parallels regarding other regional groupings?”

Stephany Griffith-Jones compared the differences in movement of

labour in the 19th and 20th century. “In the 19th century, there was substantial freedom of labour movement from the developed countries to the developing countries of the time such as the resource rich United States, Argentina and Australia. This complemented the rapid movement of capital which was going the same way. The current situation is quite different because while capital is still going from the developed countries to the developing countries, there are more restrictions on labour movement than before. Now the movement is basically from the less developed to the more developed countries – NAFTA is not about allowing Mexicans to live and work in the US. Thus, globalisation is more asymmetric than in the 19th century.”

Charles Oman responded by first distinguishing between foreign direct investment (FDI) and portfolio investment. “FDI is not as mobile as portfolio capital and therefore not as much of a problem as some suggest. I try to analyse the mobility of financial capital in the context of the significance of financial activity *per se*, and there is some interesting data in Europe and North America which clearly show a shift of tax incidence away from capital and onto labour. For example, there is a tendency to increase consumption taxes, which are regressive, and reduce enterprise taxes. This is the dual problem of the weakening of the fiscal base of governments and the shifting of the tax base from the mobile factor to the immobile factor. All of this feeds back into the issue of the sharing of the benefits or the potential benefits of productivity growth associated with globalisation and increased competition. Obviously, the mobility of financial capital has seriously weakened national economic policies and the autonomy of nation states, but we should not exaggerate this either.”

Ricardo Ffrench-Davis suggested that, theoretically, increases in productivity should result in an improvement in standards of living. However, according to Ffrench-Davis, reality is different. “When we measure growth and income equality, we tend to find that productivity growth is accompanied by greater income disparity. How can we improve this? We need to remember that the goal is not globalisation, but the improvement of standards of living. Globalisation and regionalisation should be means to achieve this larger objective.”

Charles Oman agreed with the thrust of Ffrench-Davis’s comment, but questioned the economic mechanisms at work in such a dynamic. “I would like to think that productivity growth will increase standards of living for everybody, and Paul Krugman and many others always point out that, historically, wage rates and living rates normally accompany productivity levels. But what are the mechanisms that bring this about? My own view is that equilibria do not just work themselves out by magic. On what basis should we assume that productivity levels will result in an increase of the

standards of living of everybody? Is this a normative statement or an analytical observation? There is nothing automatic in either the economic or the political mechanisms at work to lead to such increases.”

Regionalisation versus Multilateralism

A discussion of regionalisation and globalisation included defining the terms and the sequencing of both processes. Using examples from their own regions, the participants debated the notion of regionalism as a stepping stone or a stumbling block to multilateralism. Mohamed El-Erian said that while there are valid theoretical arguments for both sides of the argument, practical experience gives the final proof. As an example, he referred to a recent seminar in Washington on the scope for a US-Egypt trade arrangement. “The Egyptian view was that such an arrangement would divert them from the multilateral trade route. In addition, they would have to devote a lot of their capital to confront vested interests, and this would use up all of their good will. So in this case, a free trade arrangement would not be a stepping stone.”

Arvind Panagariya mentioned that in the US, aspects of regionalism have been quite damaging to multilateralism. “The NAFTA debate polarised the interest groups. It is difficult to call it free trade because while multilateral rounds went through Congress with relative ease, the NAFTA debate was very contentious. And in the end, the parties had to pretend that those labour and environment conditions had to be brought in to actually carry NAFTA through Congress, which was a bit disconcerting. Also, some of the issues that were raised in the discussions about NAFTA, such as labour standards, turned into effective global demands. This raised the idea that if it could be done in a regional way it could be done globally as well, and we saw the emergence of the labour standards issue coming into the multilateral fora, which was finally contained of course.”

Robert Devlin highlighted the importance of distinguishing between the initial concept of a trade agreement and the end result which might be the outcome of bad negotiations. “In the case of NAFTA, there are aspects which can be criticised quite strongly. The rules of origin in NAFTA set a bad precedent, because they are terribly complicated and restrictive in a number of sectors. But the rules of origin are the outcome of negotiations. There were a lot of issues at play in the NAFTA negotiations, and while NAFTA itself is not necessarily bad, there are bad aspects of the NAFTA negotiations. Another result of NAFTA negotiations is the longer phase-out period for the companies which were able to lobby the most. While this may guarantee sustainability to the agreement, it reflects a certain inequality on the power of the various parties to the negotiations.”

Björn Hettne stressed the importance of realising that a regional framework can be used for different purposes. "It does not imply anything except that institutional means exist to pursue certain policies. The kind of policies you pursue, however, depend on the interest of the actors. In my world map, which consists of core, intermediate, and periphery regions, the core regions of East Asia, North America and Europe pursue rather liberal trade policies because the basic point of strong economies is to gain access to weaker economies – as has always been the case in free trade agreements. At the intermediate level, there is an ambivalent view of regionalism; it can either be something favouring international free trade, or it can be a movement toward a less open and more introverted type of regionalism. This is illustrated clearly in the ECLAC documents on new regionalism where it is viewed, among other things, as a kind of precautionary measure against the European fortress or the NAFTA fortress. In the case of the periphery, there is a strong intervention argument for a group of countries interested in joint infrastructural projects, free trade agreements, etc. In my paper, I have included seven arguments in favour of regionalism as a means to promote development. I think that if an FTA or a PTA is needed to promote cooperation in controlling river systems, environmental protection or even peacekeeping, it is a cost worth paying."

Robert Devlin mentioned the case of infrastructure in South America. "We are all concerned about cost-benefit analysis, but six years ago, no amount of cost-benefit analysis alone on the Southern Cone waterway would have led to its implementation because the countries did not want infrastructure connections. These regional arrangements can be a way of encouraging countries to actually do the cost-benefit analysis and when it is positive, to make the investment."

Arvind Panagariya, however, continued to emphasise the importance of cost-benefit analysis for infrastructure investments. "Just because a bridge exists that would not have existed if not for Mercosur, does not imply that it was a good thing. The question is what did we forego in return. And to the extent that the regional arrangement may distort prices, which in turn distorts our evaluation of the project itself, there is a problem. Maybe you are first diverting trade and then you are diverting infrastructure investment."

Percy Mistry observed that a region like Africa will benefit from a regional approach simply because most African markets are too small and fragmented to function properly. "Unless those markets are enlarged in some reasonable way and are given a chance, there is simply no way for them to escape from the trap in which they find themselves. This is an intuitive and instinctive type of argument, but I arrive at it through a rejection of the alternatives. And Africa is not the only special case, SAARC might be included here as well."

Definition of Terms

The participants finally turned to the issue of definitions and their implications. Robert Devlin stated that open regionalism was generally viewed as a tool for promoting liberalisation and competition. "These agreements in Latin America make sense only to the extent that they raise competition, erode monopoly rents and permit the countries to move forward in opening up their economies and making them competitive. This is the spirit of open regionalism, and any agreement which does not result in increased competition or lowered external tariffs over time would not be included in this definition."

Percy Mistry considered the broad views presented by Björn Hettne and Charles Oman a useful reminder that there is a world beyond economics. "The whole debate on regionalism has been driven by trade theorists ever since Jacob Viner, but now there are a lot more people and disciplines that want to have their say in defining, shaping and moulding this phenomenon. The views presented by Arvind Panagariya, rigorous as they are, are neither less relevant nor less important, but need to be placed in a wider context. There is no satisfactory theory to regional integration the way it used to exist between the 1950s and the 1970s, and we are sort of playing around with a messy range of intellectual concepts trying to bring things together. Much more work needs to be done on what we used to call externalities simply because we couldn't quantify them or couldn't explain them.

The second thing that strikes me is that even on the economic frontiers of regionalism and regionalisation, there is a very large part of it – as recent financial turmoil in Asia has demonstrated – which we traditionally veered away from but which should become an integral part of regional integration theory and practice, and that is monetary arrangements, especially the issue of withstanding financial shocks. Given the fact that the contagion effects, and indeed in some regions the concentration effects, of portfolio investments are largely intra-regional, we should seriously examine the question of whether the region should intervene. The European Union has come to the conclusion that monetary issues are important and the Asians, who have not been convinced of the economic benefits of regionalism, have also concluded that this area of finance deserves some attention. It strikes me as odd that even in this area of macrofinance, where we can do some quantification and rigorous analysis, we have not really focused on the regional dimensions of monetary policy."

Björn Hettne stressed that the nature of the process of regionalisation depends on the ideology that is adopted. "It can be a neo-mercantilist project or an open regionalism project – it could even be neo-liberal project.

Regionalisation is a process which can be spontaneous or deliberate, and it can occur along various dimensions as well. The outcome may lead to a new regional actor with the capacity to act. This was the basic idea behind the Maastricht proposal to make the European Union an actor in its own terms, but it may have had its funeral in Amsterdam.

It is also interesting to contemplate what is new about globalisation, and the fact that we use a new concept implies some newness about it. I prefer to use the term globalisation to refer to the last two decades of internationalisation implying that there is some kind of qualitative change here – it is more than the internationalisation of economies. The information technology is one important aspect of this fundamental difference. Perhaps this discussion about capital and labour movement should also be included in the definitions of globalisation and regionalisation since regional arrangements are partly intended to control the movement of people. This control can be done in ways which are not so nice, as we see in Europe. As for the sequencing of globalisation and regionalisation, I think that currently, globalisation occurs alongside regionalisation whereas, if you go back a couple of decades, the internationalisation of economies occurred in the bilateral system. The notion that globalisation is accompanied by regionalisation is one of the new things about the current wave of globalisation.”